

## **ARIZONA'S BUDGET**

### ***Frequently Asked Questions***

#### ***Does Arizona have a budget deficit? How serious is it?***

Technically, Arizona cannot run a deficit – that is forbidden by the state constitution. However, budgets are drawn up based on projected revenues; so far this year, revenues are coming in at a lower rate than expected.

#### ***What is the state doing about it?***

Earlier this year, the Governor ordered a freeze on hiring for most state jobs. That freeze is expected to save the state \$40 to \$50 million by the end of the current fiscal year.

The Governor has also been closely monitoring state agencies, to ensure they continue to adhere to stringent measures to reduce spending.

On October 1, the Governor also released a Budget Management Plan for Executive agencies. The plan describes three possible shortfall scenarios, and proposes plans to meet those shortfalls, if necessary.

Governor Napolitano believes it makes great sense to plan for the worst-case scenario, even those it may never happen.

Arizona has seen tough times before, and we have managed our way through them; we will do so again, and will do it without raising taxes.

#### ***How will it affect my family?***

The Governor will preserve classroom funding for K-12 schools, and will protect services to vulnerable Arizonans, including children, veterans and seniors.

There could, however, be some cuts to some state services.

#### ***Will my taxes go up?***

No. Arizona has seen tough times before, and we have managed our way through them; we will do so again, and will do it without raising taxes.

### ***How bad could it get?***

Arizona's economy is historically resilient, and is likely to rebound even more quickly than the rest of the nation. However, to ensure Arizona is ready to meet any situation, the Governor has ordered the state to plan for three possibilities: a shortfall of \$350 million, at the low end; a moderate figure of \$450 million; and, in case the economy stays troubled for a protracted period, a pessimistic figure of \$800 million.

The Governor has proposed a combination of methods to meet the shortfall:

- Further reductions to state agency budgets;
- Transfers of money from unused accounts;
- Use of the "rainy day" fund for its intended purpose; and
- Additional state budget management options.

### ***What do you mean by "additional state budget management options?"***

Those are techniques that could be used statewide to either generate more revenue or to further cut expenses. Examples:

- Private prison fees – charge premiums to states that house their prisoners in AZ.
- Securitization of the Tobacco settlement.
- Freeze AHCCCS capitation rates.
- Lease or sale of the Lottery.

### ***Will state employees be laid off?***

No. But the hiring freeze will continue. Furloughs would be considered only as a last resort.

### ***Is Arizona the only state facing these kinds of budget problems?***

No. At least fifteen other states are dealing with significant budget shortfalls as part of overall soft national economy.

### ***Why is Arizona in this situation?***

Arizona is one of the states hit hardest by problems in the national economy. Arizona – like California, Florida and Nevada – is highly dependent on the construction industry. When the bottom fell out of the housing market, these states suffered substantial losses.

### ***When is the Arizona economy likely to recover?***

Estimates vary, but it may take another year for the economy to rebound.

### ***Shouldn't the legislature be involved in this?***

They are. The Governor will meet with leadership formally on November 6<sup>th</sup>. She has already spoken informally with leaders, and will continue to do so throughout October.

***Why is it difficult to cut the state budget?***

Because nearly half of the budget – 45% - is protected, either by the Constitution, or because it was approved by voters. By law, that 45% cannot be cut. That means all budget reductions must come out of the remaining 55% of the budget. But with careful management, we will get the job done.